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AIRGRAM — INTERNATIONAL COOPERATION ADMINISTRATION

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FROM: Accra

SUBJECT: Potential Requests for External Financing of Economic Development Projects, 1959 to 1964.

TO: DEPARTMENT OF STATE

REFERENCE (Check one before each address)

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JOINT USOM/EMBASSY MESSAGE

1. USOM/Ghana submits the following with the caveat that until decisions are reached regarding Volta River Developments it is quite impossible to give any detailed estimates of projects likely to require external financing within the next five years; and the various figures given below in the alternative to the Volta River Project are at best current thinking rather than a firm projection.

2. USOM/Ghana also desires to call attention to the fact that the projections taken from the Second Development Plan were given us completely IN CONFIDENCE as were the lists and figures furnished by the Industrial Development Corporation. Utmost care should be taken not only not to quote any figures, but also not to indicate that ICA/W has had access to these estimates.

3. The over-riding factor involving external borrowing in Ghana is the decision to be made concerning the development of the Volta River. If as a result of the Kaiser report on the Volta River scheme, the Government of Ghana determines to proceed with the construction of the main Volta River dam, it will, the USOM anticipates, have to put up about $75,000,000 of its own funds for the construction of the dam and power plant and borrow at least $75,000,000 (although it is hoped that the Kaiser estimates may reduce these figures somewhat.)

4. The USOM hazards the opinion that this $75,000,000 could be borrowed about as follows:

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IBRD	25,000,000
UK	20,000,000
West Germany	10,000,000
Canada	10,000,000
DLF	10,000,000

5. However, the USOM does not believe the Government will attempt to build the major Volta River dam unless it can see a market for at least a substantial part of the electricity produced therefrom, and for this purpose an aluminum smelter would seem essential. While this would be financed almost entirely from external funds construction of an aluminum smelter would, however, require certain railroad construction and improvement by the Government. With the guaranteed haulage involved, these loans would be 'bankable'. It is thought that the amount of further borrowing required by the Government would be in the order of magnitude of perhaps $25,000,000. The loans might be secured from:

IBRD	15,000,000
DLF	10,000,000

6. Meanwhile, to raise the necessary private capital for the mines and smelter operations, a consortium might raise $60,000,000 from various sources and secure a credit from:

Ex-Im Bank of $ 60,000,000

7. The USOM would not dare predict what pattern of borrowing for other essential projects would be developed if the Volta River project is adopted. There is no question but that if the Government of Ghana decides to proceed with that project, it will have to cut back drastically on its contemplated Second Development Plan, discussed below in paragraphs 12 through 21. Unfortunately, there is a tendency on the part of some Ministers in the Government increasingly to believe that it can finance all the development it wants in the next five years regardless of cost.

8. Politically, the Government feels itself committed to the Volta River as a source of electricity. Accordingly, it is checking carefully into 'Little Volta River Projects' which, if the aluminum smelter scheme proves to be unrealistic at this time, can be adopted and still produce electricity from the Volta River. The major 'Little' Volta scheme is a dam and power plant at Bui; a second scheme is the construction of a plant at the Kpong rapids. The latter cannot, however, be built without the former (or the major dam). The Kaiser studies will produce figures bearing on these 'little' schemes and the uses of electricity to be derived therefrom.

9. It is almost certain in the opinion of this USOM that if the major

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Volta River Project has to be postponed into the future, Ghana will try to implement at least the Bui scheme. The Halcrow estimate for this scheme, including a transmission line to Kumasi, was about $55,000,000. Aside from cement, the strictly foreign components of this scheme run to about $16,000,000. If all cement has to be imported perhaps another $16,000,000 would have to be added making a total of at least $32,000,000 in foreign costs. The USOM believes that Ghana could absorb this without too much difficulty by cutting back on projects in the Second Development Loan Plan and borrowing say $15,000,000 in addition to other contemplated borrowings as this would constitute, it is hoped, a 'bankable' project. Presumably, Ghana would approach the IBRD or, if the IBRD were not interested, the DLF because of the expressed American interest in the Volta River development.

10. There seems to be little possibility that the Kpong Rapids development will be undertaken during the next five years. Its value depends on the upstream control of the river's flow. Moreover, the 45,000 kw steam plant at Tema will come into operation during this period and it would not seem essential to tie up substantial funds for further power development in this area in the face of other needs.

11. One of the major industrial developments which should be sought in Ghana within the next five years is the exploitation of its domestic limestone resources for the manufacture of cement. There is too little limestone in Ghana of a quality that would produce Portland cement to justify exploitation; but recently, large deposits of limestone (estimated 200 million tons) have been reported near Buipe in the northern region. This limestone will produce natural cement, and it is understood if mixed with Portland cement or with clinker (which is shortly to be imported for local processing near Takoradi) a very superior cement. The Geological Survey is now conducting tests of this limestone, which is located near the Black Volta and which could be transported by barge to Bui or to the main dam site. It is too early to state what capital would be required to develop this cement, but it is, in the opinion of the USOM, one of the major musts in Ghana. If it is developed, it will have an appreciable bearing on the foreign components of any Volta River developments and other programs of Public Works. Mr. Kaiser, when here, stated that Permanente would invest in a cement plant in Ghana, regardless of the Volta River scheme, if suitable deposits were located. He expressed no opinion on the Buipe deposits.

12. Unrelated, as it presently stands, to <u>any</u> Volta River development is

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the Second Development Plan which is in the course of preparation. As of the present date, the Second Development Plan contemplates a total expenditure over five years, beginning July 1, 1959, of about $390,000,000. This includes a carryover from the Consolidation Development Plan of 1957 - 1959 of $42,000,000. However, the total figure in the Plan must not be taken as final; the estimates are being revised, generally upwards, all the time. $33 million was added to the plan within the past fortnight.

13. Whether Ghana can carry out so extensive a development plan is a moot point. It has been Commander Jackson's view that Ghana could not sustain much above $47,500,000 a year. Professor Lewis on the other hand, believes that Ghana could absorb the entire capital outlay proposed by a greater use of foreign contractors, the principal cause of slow down in the past two or three years having been, he believes, the bottleneck in the Public Works Department which tried to do too much of the work itself.

14. USOM/Ghana is inclined to believe that the actual expenditure average will be a little nearer Commander Jackson's figure than Professor Lewis'. We would hazard the guess that about $60,000,000 might prove to be the annual absorptive capacity of the economy averaged over the five year period. This might appear to be inconsistent with the views expressed in the Master Program Book, but in the Master Program Book investment by Government was differentiated from investment by the Industrial Development Corporation and the Agricultural Development Corporation. The Second Development Plan includes nearly $35,000,000 of capital for these two corporations. The USOM furthermore accepts Professor Lewis' argument that some at least of the reduction in Government capital expenditure can be reversed by greater reliance on foreign contractors.

15. As to how much Ghana can afford to borrow, Professor Lewis puts it: Ghana can spend during the next five years about $200,000,000 of its own money; anything above that must come from external borrowing. He has, however, also stated that in order to establish its credit worthiness and at the same time conserve its cash resources, Ghana hopes to borrow about one-third its projected capital expenditures.

16. Professor Lewis hopes that during the next five years the Government of Ghana can borrow about $140,000,000, maybe a little less, maybe somewhat more. On the other hand, if the average capital expenditure runs to only $60,000,000 a year, a total external public borrowing of nearer $100,000,000 would seem to be more realistic.

17. A description or list of individual projects in the Second Development Plan has not been made available to us; only certain totals. The

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more significant of these would appear to be (000 omitted):

A.	Communications:		$ 80,900
	Roads	$ 28,600	
	Aviation (improvement and lengthening of airport for jets)	11,800	
	Airline	800	
	Railways	8,400	
	Ships	800	
	Tema Harbor (including 4 new berths $16,800)	23,800	
	Post, Telephone and Telegraph	5,600	
	Miscellaneous	1,100	
B.	Electricity; including rural development:		19,600
C.	Agricultural Development:		28,600
	Agriculture, including drainage, dams, etc.	14,000	
	Agricultural credit	800	
	Animal Health and Husbandry	2,800	
	Forestry	1,800	
	Fisheries	500	
	Cooperatives	200	
	Agricultural Development Corporation	8,400	
D.	National Research Council:		1,700
E.	Forestry:		33,700
	"Industrial Development Corporation, Hotels, etc."	28,000	
	Other	5,700	
F.	Public Works:		38,100
	Grants to local Governments for roads, buildings, etc.	10,900	
	Local development through Community Development	7,000	
	Other	20,200	

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G.	Education:		37,800
	Secondary Schools	18,800	
	Technical Schools	3,400	
	University College	5,000	
	Kumasi College of Technology	5,000	
	Library Board	600	
	General education	3,900	
	Miscellaneous	1,100	
H.	Housing:		12,900
I.	Health and Sanitation:		53,200
	Public Health (mainly health centers)	14,800	
	Hospital construction	8,400	
	Rural water supply	12,600	
	Urban water supply	9,000	
	Accra sewerage	8,400	
J.	Broadcasting (mainly external)		4,800
K.	Other		35,000
	Defense	14,600	
	Police	11,200	
	Prisons	2,200	
	Diplomatic, Miscellaneous and a few sub-items	7,000	
L.	Consolidation Plan, 1958-59, carry over:		42,000
	Corrections for plus and minus:		900
			$ 389,200

18. Comments on Paragraph 17:

A. Communications: Most of these projects will probably be laid before IBRD as constituting the types of project which IBRD is inclined to favor. The foreign component is expected to be about half. Undoubtedly, some of the items will not qualify as projects and the IBRD might prefer to omit some projects. It would seem, however, as though the IBRD might furnish about $30,000,000, and that DLF might furnish about $5,000,000.

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B. Electricity: Included in this figure is $ 5,300,000 to complete the 45,000 kw Tema Steam Plant ($3,400,000 is included in the Consolidation Development Plan, K below). There is a possibility that this will be constructed by an American contractor in which event perhaps $2,000,000 of the projects listed under this paragraph will be financed by the Ex-Im Bank. Most of the projects would be suitable for IBRD financing and perhaps $5,000,000 would be available from that source. The DLF, we think, might make $3,000,000 available.

C. Agricultural Development: A few projects suitable for external loans from IBRD or DLF may be included in this heading, but principally the expenditures are for expanding agricultural stations and for incentive schemes.

D. National Research Council: Whether regional funds would be available for this undertaking is not known. We have not projected any external financing for this project.

E. Industry: Lacking details as to the projects covered by the major heading, it is not possible to project needed external loans, although it is quite possible that some of the proposed projects will be 'bankable'. The same comment applies to the projects listed as 'Other'. These include geological survey work, aid to African business, tourism and the like. What is intended by "Aid to African Business" is not known. The IDC already has a small loan section for that purpose.

F. Public Works: Except for grants to local Governments - in large parts for roads - and Community Development Projects, most of the projects covered by 'Other' are for the construction of public buildings. These will involve large imports of cement and some steel, unless, as indicated in Paragraph 11, a local cement industry is developed. We do not anticipate any external borrowing specifically for any of these projects.

G. Education: Improved educational opportunity and expanded educational facilities in Ghana are fundamental to the economic development of the country. Because of the shortage of secondary schools, Ghana is failing to turn out the personnel required to fill the middle brackets of government, industry and commerce - the very foundation on which economic progress must rest. Incidentally, many of these positions have now to be filled with individuals hired from abroad. Government and business have to pay not only higher salaries but also transport fares to and from Europe and long home leave costs. As Professor Lewis pointed out to Mr. Smith during the latter's recent visit, if Ghana could train its own people, the savings in expatriate hirings alone would constitute a substantial direct cash return on the investment in education. Ghana is hoping and the USOM would fully support the proposal that DLF assist

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in the financing of its school and college program. We believe loans for this purpose would total not less than $10,000,000.

H. Housing: Nearly half of this sum is intended to promote private enterprise in the housing field: aided self-help housing; an extension of the present roof-loan scheme (which by lending for a good roof - aluminum sheets - has resulted in the building or rebuilding of many good houses) both rural and urban; and site improvement for private development schemes.

I. Health and Sanitation: It has been reported to the Embassy that an American firm may secure a contract for providing rural water supplies, and incidental electric power running to nearly $8,500,000. If this is true it may well be that a credit from the Ex-Im Bank will be involved, perhaps to the extent of $2,500,000. The Accra sewerage scheme and the urban and other rural water supply schemes all lend themselves to similar financing, although it is probable that some of the contracts will go to the U.K. and the Continent. Certainly it would seem that at least $3,900,000 of additional Ex-Im Bank credit might be made in this sector; and we also believe that at least $7,000,000 of DLF loans would be suitable.

J. Broadcasting: Ghana has determined to engage in external broadcasting, the total cost of which is estimated at roughly $3,000,000. About $600,000 will have been financed in the Consolidation Plan (L below); $2,400,000 is included in the Second Development Plan in this section. It is thought that Ex-Im Bank credits amounting to perhaps $1,300,000 will be sought against the latter amount.

K. Other: These would not seem to be projects suitable for specific financing from abroad.

L. Consolidation Plan: As indicated above, partial financing of several projects are included under this heading, including Tema Steam Plant and External Broadcasting. It would seem probable that for the relative amounts under this heading, Ex-Im loans sought on these projects might amount to $2,000,000 and $300,000 respectively.

19. Professor Lewis believes that Ghana may also at some time during the five year period of the Second Development Plan approach London with a view to raising a loan on the street. He estimated that the maximum that could be raised in this manner might be £10,000,000 or $28,000,000. Even if this may prove optimistic, credit from continental sources might well be a possibility, and the total claimed has therefore been accepted as reasonable.

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20. Suppliers credits will of course also be available in substantial amounts, but these cannot be taken into consideration.

21. To recapitulate: We have suggested that possible sources and amounts of external public borrowing by Ghana during the next five years for the Second Development Plan might be as follows:

IBRD	$ 35,000,000
Ex-Im Bank	12,000,000
DLF	25,000,000
London Street or other sources	28,000,000
	$ 100,000,000

22. In the private sector, it is even less possible to make accurate predictions. We are not attempting to include projects for which external financing has already been assured or the new industries in which IDC has a part and for which all capital, including presumably necessary external financing, has, according to IDC, been arranged.

23. The following list of projects has been furnished in complete confidence by the Industrial Development Corporation as industries for which it hopes capital from whatever source can be raised within the next five years:

	Estimate of total capital required	
Paper products: toilet rolls	250,000	
Envelopes, stationary	85,000	
Bags, etc.	70,000	
Oil expression and refining	640,000	
Plastics	975,000	
Clothing Industries	700,000	
Cotton printing	1,400,000	
Wax block printing of textiles	1,960,000	(of which IDC will participate 25%)
Aluminum utensils	85,000	
Tire remoulding	280,000	
Perfume, cosmetics	110,000	
Coconut-fibre products	420,000	
Metal trunks / Fibre-board cases	220,000	(of which IDC will participate 75%)
Asbestos cement products	500,000	

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Electrical Assembly and Repairs workshop	420,000
Wood screws, Nuts & Bolts, etc. (Takoradi)	165,000
Nail factory (Takoradi)	420,000
Confectionery	700,000
Ice manufacture, 10 plants	420,000

24. At least some of the foregoing items are projects which would, the USOM believes, be sound industrial enterprises. Assuming that the Government's Industrial Promotion Board is successful in its projected endeavors to attract external private capital a number of these will doubtless be carried into effect. Of the 20 projected new industries that IDC hopes to get started calling for a total capital of about $9,750,000, it would not be unreasonable to assume that half to three-quarters would in fact be undertaken within the next five years, and that private external financing would be sought on an equity basis to the extent of, say, $7,000,000. To the extent that private equity capital is not forthcoming, the IDC will presumably invest its own funds.

25. In addition to the industries listed by IDC, another field for private external capital (it is not possible for us at this stage to try to differentiate between loan and equity capital) can confidently be expected in agriculture, notably in the setting up of rubber estates, banana plantations and plantations for the production of vegetable oils. In each major plantation there would probably be processing plants of greater or less magnitude. The Agricultural Development Corporation will insist on 25% participation. Private foreign capital might run to $3,000,000 to $4,000,000 during the next five years on these plantations; but these figures are frankly guesswork.

26. Tuna fishing should also prove an attractive source of investment in Ghana within the next five years and perhaps $1,000,000 invested in cold storage and processing plants. Other food processing should also prove of importance during this period. There is good scope for a modern meat packing plant at the source of supply in the north before the cattle walk off too much fat. Tied with this and with local food processing plants, would be a further extension of the country's cold storage system, including refrigerated transportation. Again, as guesswork only, another $1,000,000 might come from external sources for these developments.

27. The Embassy has assisted the USOM in preparing the foregoing estimates.

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